

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2020-7-G

IN RE: Application of Piedmont Natural Gas Company,)	
Incorporated to Have the Terms of the Natural)	SETTLEMENT
Gas Rate Stabilization Act Apply to the)	AGREEMENT
Company's Rates and Charges for Gas)	
Distribution Services)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491 and 2005-567, dated September 28, 2005 and October 13, 2005, respectively, the Commission established a baseline for Piedmont under the Natural Gas Rate Stabilization Act (the "RSA") and approved certain accounting adjustments proposed by ORS and Piedmont;

WHEREAS, pursuant to Sections 58-5-430 and 58-5-440 of the RSA, Piedmont filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2020 for the review period consisting of April 1, 2019 through March 31, 2020 ("Review Period");

WHEREAS, the Report of ORS's examination of Piedmont's Monitoring Report for the Twelve-Month Period Ended March 31, 2020 pursuant to the RSA, was filed with the Commission on September 1, 2020;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, following those discussions, the Parties have each determined that their interests, and the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November 2020 calculated on the basis of a 9.8% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Settlement Schedule 1 (Net Operating Income and Rate of Return); Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Settlement Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Settlement Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, a Debt/Equity Ratio of 47.69%/52.31%, and the agreement of Piedmont to implement rates based on a 9.8% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$7,084,535. This equates to a reduction of \$7,483,013 for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.

5. The Parties agree to a decrease in revenue of \$2,983,717, due to a demand cost over-recovery.

6. Nothing in this Settlement Agreement alters or removes the commitment by the Parties to terms described in paragraph nos. 6 and 7 of the Settlement Agreement filed in Docket No. 2019-7-G. Those paragraphs specifically provided that:

- a) Piedmont will file a general rate case proceeding with the Commission no later than April 1, 2022; and
- b) ORS shall be provided the following information by Piedmont on a going forward basis: a. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to the ORS the employees whose incentive pay has been capitalized and included in rate base and the amount thereof. b. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to ORS all the per books non-allowable expenses for the annual review period. c. By November 30 and May 31 of each year, Piedmont shall provide the ORS with general ledger expense detail for the respective six-month prior periods ending September 30 and March 31 for RSA non-allowable expense testing purposes. d. The Company will work in good faith with ORS to improve the transparency and reporting of costs allocated to the Company from DEBS, or other subsidiaries of Duke Energy in order to facilitate the ORS's ability to efficiently audit such cost allocations in the future

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate in

any future proceeding. The Parties agree that this Settlement Agreement is in the public interest when considered as a whole. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

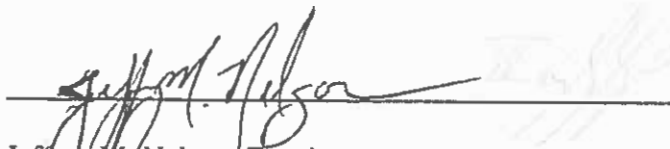
9. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

10. This Settlement Agreement shall be interpreted according to South Carolina law.

11. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

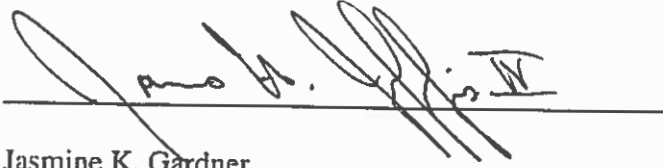
[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff

A handwritten signature in dark ink, appearing to read "Jeffrey M. Nelson", is written over a horizontal line.

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A handwritten signature in black ink, appearing to read "James H. Jeffries, IV", is written over a horizontal line.

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Settlement Schedule 1

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G

	(1)	(2)	(3)	(4)	(5)	(6)
	Per Regulatory Books	ORS Accounting and Pro Forma Adjustments	ORS As Adjusted	Adjustments for Proposed Margin Increase	Adjustments for Demand Cost Under(Over) Recovery	Total After Proposed Rates
<u>Operating Revenues</u>						
1 Sale and Transportation of Gas	\$ 140,783,411	\$ 2,850,891	(1) \$ 143,634,302	\$ 7,084,535	(11) \$ (2,983,717)	(17) \$ 147,735,120
2 Other Operating Revenues	560,435	0	560,435	0	0	560,435
3 Total Operating Revenues	141,343,846	2,850,891	144,194,737	7,084,535	(2,983,717)	148,295,555
<u>Operating Expenses</u>						
4 Cost of Gas	56,546,866	394,021	(2) 56,940,887	0	(2,957,299)	(18) 53,983,588
5 Operations and Maintenance	34,368,454	(341,782)	(3) 34,026,672	19,892	(8,378)	(19) 34,038,186
6 Depreciation	15,148,315	3,076,634	(4) 18,224,949	0	0	18,224,949
7 General Taxes	2,152,006	5,600,744	(5) 7,752,750	42,834	(18,040)	(20) 7,777,544
8 State Income Taxes	647,133	318,966	(6) 966,099	351,091	0	1,317,190
9 Federal Income Taxes	2,847,383	127,519	(7) 2,974,902	1,400,851	0	4,375,753
10 Amortization of Investment Tax Credits	(4,788)	0	(4,788)	0	0	(4,788)
11 Total Operating Expenses	111,705,369	9,176,102	120,881,471	1,814,668	(2,983,717)	119,712,422
12 Net Operating Income	29,638,477	(6,325,211)	23,313,266	5,269,867	0	28,583,133
13 Interest on Customers' Deposits	(95,480)	0	(95,480)	0	0	(95,480)
14 Amortization of Debt Redemption Premium	0	0	(8) 0	0	0	0
15 Allowance for Funds Used During Construction	740,598	0	740,598	0	0	740,598
16 Customer Growth	248,963	(53,132)	(9) 195,831	44,267	(16) 0	240,098
17 Net Operating Income for Return	\$ 30,532,558	\$ (6,378,343)	\$ 24,154,215	\$ 5,314,134	\$ 0	\$ 29,468,349
<u>Rate Base:</u>						
18 Plant in Service	\$ 714,262,238	\$ 0	\$ 714,262,238			\$ 714,262,238
19 Accumulated Depreciation	(251,993,328)	0	(251,993,328)			(251,993,328)
20 Net Plant in Service	462,268,910	0	462,268,910			462,268,910
Add:						
21 Construction Work in Progress	35,877,604	0	35,877,604			35,877,604
22 Materials and Supplies	6,603,812	0	6,603,812			6,603,812
23 Cash Working Capital	(1,202,856)	(42,723)	(10) (1,245,579)			(1,245,579)
Deduct:						
24 Customers' Advances	0	0	0			0
25 Customers' Deposits	2,774,724	0	2,774,724			2,774,724
26 Accumulated Deferred Income Taxes	93,094,892	0	93,094,892			93,094,892
27 Unclaimed Funds	23,085	0	23,085			23,085
28 Total Rate Base:	\$ 407,654,769	\$ (42,723)	\$ 407,612,046			\$ 407,612,046
29 Rate of Return	7.49%		5.93%			7.23%
30 Return on Common Equity	10.30%		7.31%			9.80%

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G

Line No.	Description	Per ORS	Per Piedmont
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust revenues to the going-level basis.	\$ 2,850,891	\$ 2,850,891
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 2,850,891</u>	<u>\$ 2,850,891</u>
2	<u>Cost of Gas</u>		
	To adjust cost of gas to the going-level basis.	\$ 394,021	\$ 394,021
	<u>Total Cost of Gas</u>	<u>\$ 394,021</u>	<u>\$ 394,021</u>
3	<u>Operations and Maintenance Expenses</u>		
a.	To adjust payroll expenses to the going-level basis.	\$ 274,707	\$ 274,707
b.	To adjust pension and OPEB expenses to the going-level basis.	\$ (176,910)	\$ (133,861)
c.	To adjust employee retirement and welfare benefit expenses to the going-level basis.	\$ 321,661	\$ 321,661
d.	To adjust expenses for the provision for uncollectible accounts to reflect actual net write-offs over a three-year period.	\$ (73,974)	\$ (73,974)
e.	To adjust expenses for allocations to non-utility activities.	\$ (13,341)	\$ (13,341)
f.	To adjust LTI - equity incentives expenses to the going-level basis	\$ -	\$ 19,111
g.	To adjust STI - short term incentives expenses to the going-level basis.	\$ -	\$ (282,922)
h.	To adjust lease expenses to the going-level basis.	\$ 60,928	\$ 60,928
i.	To adjust expenses for the South Carolina assessment fee.	\$ (24,830)	\$ (84,261)
j.	To adjust expenses for amortization of deferred SC environmental expense.	\$ 306,436	\$ 306,436
k.	To adjust expenses for Gas Technology Institute (GTI) program dues expense.	\$ -	\$ -
l.	To adjust expenses for lobbying as non-allowable for ratemaking purposes.	\$ (4,097)	\$ (4,097)
m.	To adjust expenses for 50% of aviation as non-allowable for ratemaking purposes.	\$ (68,986)	\$ (98,486)
n.	To adjust expenses for other non-allowables for ratemaking purposes.	\$ (705,780)	\$ (622,185)
o.	To adjust the Company's LTI & STI to remove amounts associated with Earnings Per Share and Total Shareholder Return for the Executive Leadership Team and remove 50% of the Company's four highest compensated executives' base pay and benefits.	\$ (237,596)	\$ -
	<u>Total Operations and Maintenance Expense</u>	<u>\$ (341,782)</u>	<u>\$ (330,284)</u>

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
4	<u>Depreciation Expense</u>		
	To adjust depreciation expense to the going-level basis using the most current depreciation study rates.	\$ 3,076,634	\$ 3,076,634
	<u>Total Depreciation Expense</u>	<u>\$ 3,076,634</u>	<u>\$ 3,076,634</u>
5	<u>General Taxes</u>		
	a. To adjust property taxes to the going-level basis.	\$ 5,630,918	\$ 5,630,918
	b. To adjust franchise taxes to the going-level basis.	\$ (15,680)	\$ (15,680)
	c. To adjust payroll tax expenses to the going-level basis.	\$ 21,015	\$ 834
	d. To adjust the utility license fee (rate of .3%) to the going-level basis.	\$ 8,553	\$ 8,553
	e. To adjust the gross receipts tax (rate of .304614%) to the going level basis.	\$ 8,684	\$ 7,413
	f. To adjust payroll tax expenses based upon ORS adjustment 3o.	\$ (52,746)	\$ -
	<u>Total General Taxes</u>	<u>\$ 5,600,744</u>	<u>\$ 5,632,038</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	\$ 318,966	\$ 323,027
	<u>Total State Income Taxes</u>	<u>\$ 318,966</u>	<u>\$ 323,027</u>
7	<u>Federal Income Taxes</u>		
	a. To adjust federal income taxes (rate of 21%) to reflect the impact on income for accounting and pro forma adjustments.	\$ 1,007,354	\$ 1,023,556
	b. To adjust expenses for the 2017 tax reform EDIT giveback to customers.	\$ (879,835)	\$ (879,835)
	<u>Total Federal Income Taxes</u>	<u>\$ 127,519</u>	<u>\$ 143,721</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To adjust net operating income for amortization of debt redemption premium.	\$ -	\$ -
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ -</u>	<u>\$ -</u>
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .84%) following the adjustments to operating revenues and expenses.	\$ (53,132)	\$ (53,661)
	<u>Total Customer Growth</u>	<u>\$ (53,132)</u>	<u>\$ (53,661)</u>

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
10	<u>Cash Working Capital</u>		
	To adjust cash working capital following the pro forma adjustments to operations and maintenance expenses (rate of 12.5%).	\$ (42,723)	\$ (41,285)
	<u>Total Cash Working Capital</u>	\$ (42,723)	\$ (41,285)
11	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust the revenue requirement for the sale and transportation of gas for the proposed margin increase.	\$ 7,084,535	\$ 15,428,794
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 7,084,535	\$ 15,428,794
12	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (rate of .2808%) following the adjustment to operating revenues.	\$ 19,892	\$ 43,321
	<u>Total Operations and Maintenance Expenses</u>	\$ 19,892	\$ 43,321
13	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of 0.304614%) following the adjustment to operating revenues.	\$ 42,834	\$ 86,403
	<u>Total General Taxes</u>	\$ 42,834	\$ 86,403
14	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the adjustments to operating revenues and expenses.	\$ 351,091	\$ 764,954
	<u>Total State Income Taxes</u>	\$ 351,091	\$ 764,954
15	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 21%) to reflect the impact on income from the adjustments to operating revenues, expenses and state income taxes.	\$ 1,400,851	\$ 3,052,164
	<u>Total Federal Income Taxes</u>	\$ 1,400,851	\$ 3,052,164

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
16	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .84%) following the adjustments to operating revenues and expenses.	\$ 44,267	\$ 96,448
	<u>Total Customer Growth</u>	\$ 44,267	\$ 96,448
17	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust the revenue requirement for the sale and transportation of gas associated with demand cost recovery.	\$ (2,983,717)	\$ (2,982,375)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (2,983,717)	\$ (2,982,375)
18	<u>Cost of Gas</u>		
	To adjust cost of gas for the demand cost recovery.	\$ (2,957,299)	\$ (2,957,299)
	<u>Total Cost of Gas</u>	\$ (2,957,299)	\$ (2,957,299)
19	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (rate of .2808%) following the adjustment to operating revenues.	\$ (8,378)	\$ (8,374)
	<u>Total Operations and Maintenance Expenses</u>	\$ (8,378)	\$ (8,374)
20	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of 0.304614%) for the adjustment to revenues for demand cost recovery.	\$ (18,040)	\$ (16,702)
	<u>Total General Taxes</u>	\$ (18,040)	\$ (16,702)

**Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2020
Docket No. 2020-7-G**

Settlement Schedule 3

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>ORS As Adjusted</u>				<u>After Proposed Rates</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>
Long-Term Debt	2,379,650,862	47.69%	194,410,559	4.41%	2.10%	8,573,506	194,390,185	4.41%	2.10%	8,572,607	194,390,185	4.41%	2.10%	8,572,607
Common Equity	2,610,239,803	52.31%	213,244,210	10.30%	5.39%	21,959,052	213,221,861	7.31%	3.82%	15,581,608	213,221,861	9.80%	5.13%	20,895,742
Total	<u>4,989,890,665</u>	<u>100.00%</u>	<u>407,654,769</u>		<u>7.49%</u>	<u>30,532,558</u>	<u>407,612,046</u>		<u>5.93%</u>	<u>24,154,215</u>	<u>407,612,046</u>		<u>7.23%</u>	<u>29,468,349</u>